1972

ANNUAL REPORT

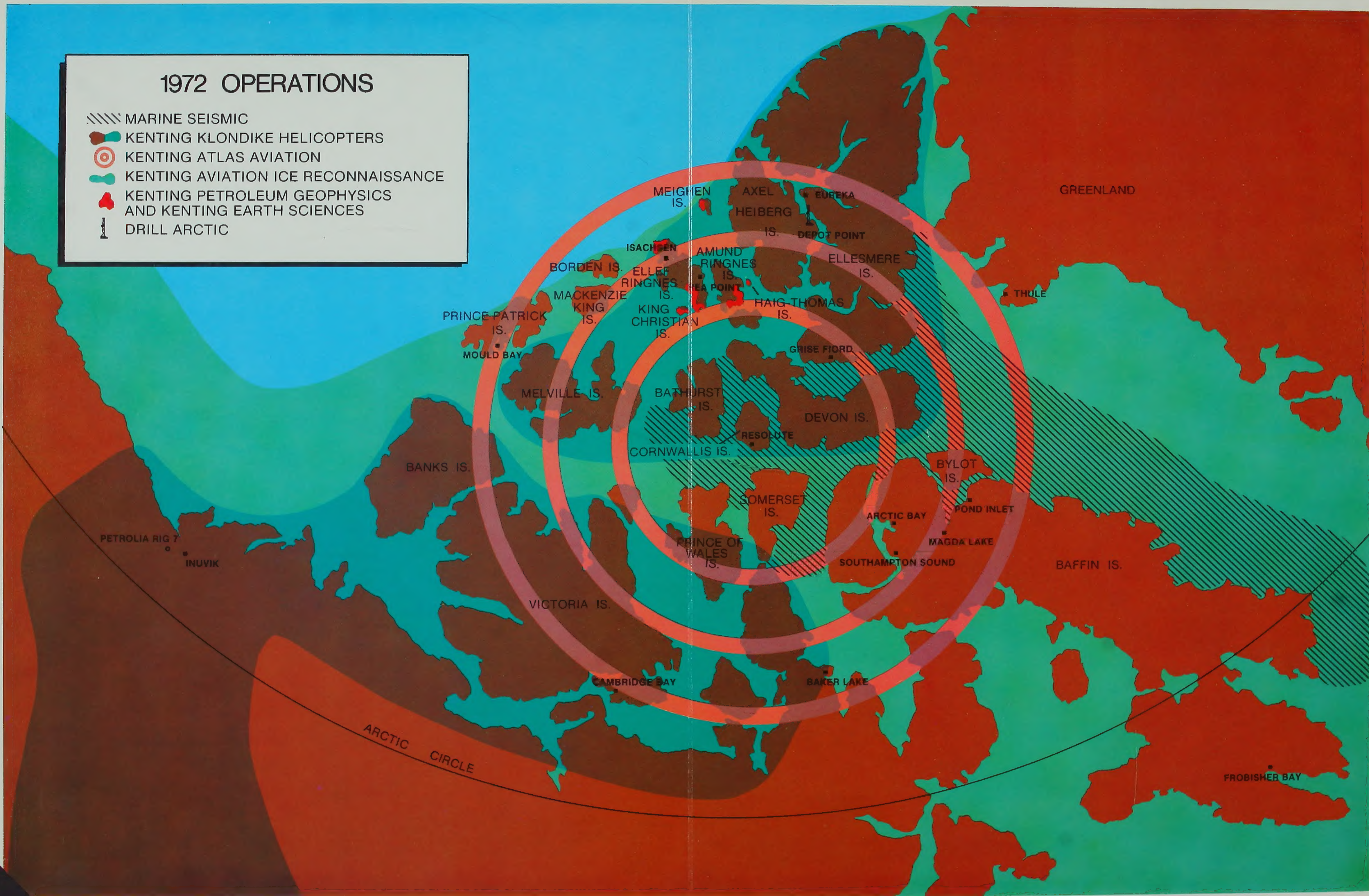
KENTING

TO THE SHAREHOLDERS:

The Company's sales exceeded $23 million for the year but we suffered a loss of $1,222,000. The two Quest marine ships on seismic surveys in the Arctic met the most severe ice conditions experienced in that area in the past twenty years. As a consequence they completed only 20% of their contracted work causing a loss, before administration costs and applicable income tax recoveries, in excess of $1,700,000. However, the ships worked in areas of open water which were geologically interesting for Kenting's own account, acquiring 3,600 miles of valuable seismic data.

Following our accounting practice costs of acquiring this data have been written off, although future sales are expected and have to some degree materialized. The Big Indian division also

Lift Flap for Operations Map ▶


1972 OPERATIONS
MARINE SEISMIC
KENTING KLONDIKE HELICOPTERS
KENTING ATLAS AVIATION
KENTING AVIATION ICE RECONNAISSANCE
KENTING PETROLEUM GEOPHYSICS AND KENTING EARTH SCIENCES
DRILL ARCTIC
MEIGHEN IS.
AXEL HEIBERG IS.
EUREKA
DEPOT POINT
GREENLAND
ISACHSEN
AMUND RINGNES IS.
ELLESMERE IS.
BORDEN IS.
ELLEF RINGNES IS.
THULE
MACKENZIE KING IS.
HAIG-THOMAS IS.
PRINCE PATRICK IS.
KING CHRISTIAN IS.
MOULD BAY
GRISE FIORD
MELVILLE IS.
BATHURST IS.
DEVON IS.
RESOLUTE
CORNWALLIS IS.
BANKS IS.
BYLOT IS.
SOMERSET IS.
POND INLET
ARCTIC BAY
PETROLIA RIG 7
INUVIK
PRINCE OF WALES IS.
MAGDA LAKE
SOUTHAMPTON SOUND
BAFFIN IS.
VICTORIA IS.
CAMBRIDGE BAY
BAKER LAKE
ARCTIC CIRCLE
FROBISHER BAY

experienced severe losses. This division has now been absorbed by Kenting Petrolia and the losses have been stopped.

Kenting's 1972 revenues were divided as follows:

Drilling contributed $8 million or 34%, air services $6.6 million or 29%, construction $4.8 million or 20% and geophysics, data sales and engineering $4 million or 17%. Of the total revenue, 41% was earned in the Northwest Territories and the Arctic Islands. Drilling services and aviation services both had good years; construction services and data sales were on budget.

INTEGRATION OF SERVICES

The company's staff averaged 700 for the year with 132 in drilling, 123 in aviation, 204 in construction, and 254 in geophysics and engineering. Another 185 have been added from Spartan Aero Limited, now called Kenting Earth Sciences Limited.

To understand how Kenting's integration works it is useful to look at the Arctic where the greatest degree of integration now takes place. Seismic, gravity and magnetometer crews on board chartered vessels gather offshore survey data which is correlated with on-ice, on-land and airborne programs to become part of a total package survey. The scientific personnel of Kenting's geophysical divisions carry out the surveys. Kenting Aviation and Kenting Klondike Helicopters support the crews on the ships with helicopters, and on land with aircraft and helicopters.

ACQUISITIONS

In 1972 Kenting Limited reappraised its commitments to Arctic exploration services and decided to balance these activities with new ones domestic and overseas.

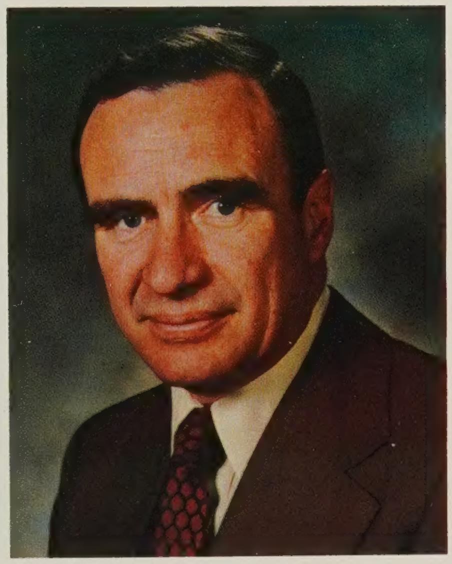
Over the years Kenting Limited has increased its scope and size through the acquisition of related type service companies. In 1972 it completed the purchase of Atlas Aviation in Resolute Bay, Northwest Territories, the purchase of Technical Enterprise (Electrical) Ltd. in Edmonton and the purchase of Spartan Aero Limited in Ottawa. These acquisitions have completed Kenting's plan to have a fully integrated exploration service company. No other acquisitions are planned at this time.

Each of these companies in its own way complements the Kenting coordinated service package. Yet they are very different: Atlas and Technical worked with Kenting's divisions as suppliers of equipment and services; Spartan was, in some areas, a competitor. Technical is a small company with annual revenues of $500,000. Atlas has revenues of $2.5 million. Spartan Aero has revenue between $4 and 5 million.

Atlas Aviation, the pioneer of high Arctic air services, works closely with Kenting divisions on Arctic operations in supporting and supplying services to exploration crews. It carries passengers, mail and cargo to remote Arctic communities. As oil and gas exploration in the Arctic Islands grows Atlas' market will expand. The link up will benefit all Kenting divisions working in the Arctic. Since our acquisition of Atlas one Twin Otter and four DC-3's have been added to the active fleet bringing the total to 5 of each type. Staff has been increased and a $500,000 hangar has been built in Resolute. Management of the air fleet was integrated with the Kenting Aviation division and a central maintenance and overhaul base was established for all aircraft in Toronto.

Spartan Aero, now Kenting Earth Sciences, employs 185 people in Ottawa, Calgary, Toronto, Lagos and Nairobi working on aerial surveys, and integrated engineering and scientific projects. Its 12 planes were put under the management of Kenting Aviation which has many links with the air survey business. The integration of the aerial operations will increase the efficiency of the overall fleet and will reduce maintenance costs.

The Board of Directors would like to take this opportunity to thank the employees who have worked so hard for the company this year and welcome the new employees who have joined the company since the beginning of 1973.



J. W. STRATH
President

AIR SERVICES

Spartan Aero, now Kenting Earth Sciences, has airborne survey capacity for aerial photography, topographic mapping, engineering studies and resource exploration.

Kenting Klondike Helicopters and Kenting Aviation divisions both saw less activity than usual as a result of reduced fire suppression requirements. For Kenting Aviation the slack was more than taken up through the integration of Kenting Atlas Aviation based in Resolute Bay, Northwest Territories, which was acquired early in the year.

A new $500,000 hangar was built in Resolute during the summer and another Twin Otter and four DC-3's were added to the Kenting fleet.

Aviation speciality sales were good for both Kenting Aviation and Kenting Klondike. Kenting Klondike continued to make its presence felt in the Canadian Arctic with a permanent operating base being established at Inuvik. Three light turbine helicopters were engaged in Polar bear surveys out of Inuvik, Cambridge Bay and Resolute and another working within 300 miles of the North Pole. Oil and gas exploration, pipeline and environmental surveys in the Mackenzie River Valley, Mackenzie Basin and Arctic Islands continue to account for most of the flying.

In December a light turbine helicopter, a Bell 206 B, commenced geophysical survey in Venezuela signalling a return to international markets.

In 1973 a further 12 planes were added to Kenting Aviation's fleet as it assumes the management of the former Spartan Aero aircraft. Kenting's combined helicopter and fixed-wing air fleet then will consist of 4 piston helicopters, 12 turbine helicopters, 16 survey aircraft, 9 twin engined passenger-cargo aircraft, 5 water bombers, 2 freight and fuel hauling aircraft and one executive passenger jet aircraft. In addition, 4 aircraft are managed and operated on behalf of others.

The fleet's utilization is of prime importance to the integration of Kenting services. They bring men and supplies into remote job sites, such as Twin Otters supplying drilling rigs and perform support functions. For example, helicopters scout paths through heavy ice for Kenting marine seismic operations. With the addition of Spartan Aero's airborne geophysics, photographic surveys, and mapping, another phase of the integrated operations will take place.

Kenting Atlas aircraft support and supply land-based exploration teams in the high Arctic Islands. This group is on Devon Island.

Kenting Klondike Bell 205 flies over Calgary.

CONSTRUCTION AND MAINTENANCE SERVICES

Kenting Oilfield Services division has achieved its most profitable year to date.

The expanded projects department charged with carrying out the construction of technically advanced systems such as compressor stations and central production facilities in Alberta is opening new opportunities. Several medium sized pipeline contracts totalling 90 miles have been carried out in Alberta. The maintenance and construction department benefited from increased sales. The well operations department had an active year managing and operating 79 wells, compressor and water flood plants.

Kenting "Kleen-up" has had moderate success in 1972, as pollution free disposal of oilfield waste becomes more wide spread. The company is making modifications that would permit the "Kleen-up's" use in clean up of marine oil spills.

Technical Enterprise (Electrical) Ltd. was acquired in April. The company is a manufacturer and supplier of specialized electrical equipment, airport lighting, hydraulic air systems. The business is closely aligned with the Kenting Oilfield Services division with which it has been integrated.

Pipelining, here at Warburg, Alberta, is an integral part of the oilfield services offered by Kenting.

DRILLING SERVICES

Kenting Petrolia experienced a high activity level in 1972 particularly in shallow gas drilling.

At year end the company had 12 rigs with depth capacity to 16,000 feet operating in Canada.

During 1972, a twelfth rig was added to drill a multi-well programme, and is the first Canadian oil rig to drill in England. High activity level is anticipated in 1973.

DrillArctic, a joint venture of Kenting, Westburne Petroleum Services Ltd. and Bow Valley Industries Ltd., is currently working in the high Arctic, on Axel Heiberg Island, 650 miles from the North Pole. Equipment operated on this programme includes a 14,000 foot capacity drilling rig, designed for Arctic use, together with a 60 man Arctic camp, fuel storage for one million gallons of fuel, 11 trucks, tractors, graders, along with other support equipment.

DrillArctic management believes that this "complete one-company responsibility operation" service will become increasingly in demand in the Arctic.

Kenting Petrolia's Rig 12 was the first Canadian rig to drill on English soil, here at Pocklington, near York.

The DrillArctic Joint Venture spudded its first well at Depot Point, Axel Heiberg Island.

RESOURCE DEVELOPMENT AND ENGINEERING SERVICES

Technician with transmitter coil of vertical loop electro-magnetic system works on mining geophysical exploration program.

The 1972 Quest programmes were a continuation of the co-operative surveys between oil companies and Kenting in which Kenting develops its library of reconnaissance exploration data. Four thousand miles of combined marine seismic, gravity and magnetic data were obtained in the waters of the eastern and western Arctic.

Sales of Quest data acquired in the past contributed significantly to the income of the resource development group of services. Since 1968 this Kenting owned "Data Library", which has been written off in the financial statements, has continued to grow in value and in yearly sales. The library has become the recognized source of non-exclusive geophysical, and geological information for the oil companies in northern Canada.

Kenting Exploration Services besides planning and managing the Quest surveys, provides independent data interpretation services for clients. The first year of a two year land seismic survey of five of the high Arctic Islands being Meighen, Amund Ringnes, Ellef Ringnes, King Christian and Haig Thomas was conducted. Several months of on-ice and land gravity surveys in the high Arctic Islands were carried out.

Spartan Aero, now Kenting Earth Sciences division, employs 185 people in Ottawa, Calgary, Toronto, Lagos and Nairobi. The Company provides aerial photography, topographical mapping, air and ground geophysics, control surveys and engineering services to Governments, mining and oil companies and consultants. Its fleet of 12 aircraft was put under Kenting Aviation whose management and staff have many years of aerial survey experience. This division has averaged $4.5 million annual sales which is projected to grow to $6 million by 1974. Over half their sales are outside Canada. It is our hope that Kenting's other services through this division will be exposed to these international markets.

Kenting Big Indian's light weight portable sampling rigs were committed to resource exploration and transportation studies. The sea bottom sampling programme was carried out in the Beaufort Sea, to test for the base of man-made "islands" planned to serve as drilling platforms. The division continues to play a role in engineering feasibility

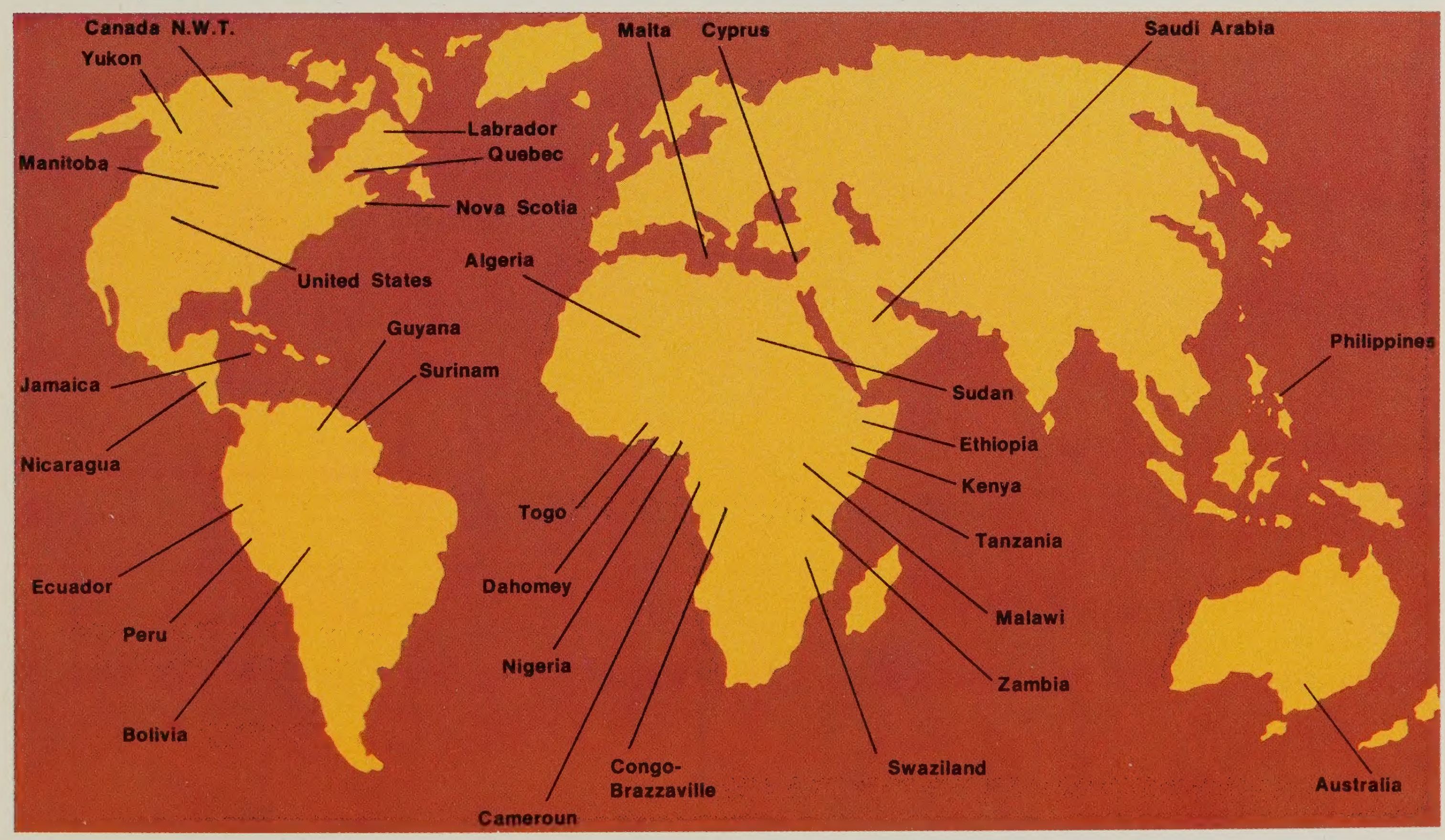
and ecological impact studies for the proposed Mackenzie Valley highway and pipeline and in the Athabasca tar sands.

Although the bulk of resource surveys took place in the Canadian Arctic, mining and petroleum geophysical programmes were carried out in Alberta and British Columbia, the southern Northwest Territories, and in the area around James Bay. Additionally, contracts in Central America and the Camerouns were continued and completed in 1972.

Helicopters maintain links between the marine seismic vessels and Arctic Islands while scouting paths through the ice.

The electro-magnetic transmitter coil on the nose of this Canso is part of a system of Spartan Aero's own innovation.

This map shows Spartan Aero's areas of operation.



CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31 1972	1971
Revenue (Note 11)	$23,418,340	$18,396,920
Net operating costs	19,567,326	12,955,186
Sales, administration and general expenses	2,954,022	2,542,483
Interest, including interest on term debt of $311,901 (1971—$242,924)	349,030	290,134
Provision for depreciation and amortization (Note 3)	2,337,357	1,336,733
Loss (gain) on disposal of property and equipment	65,479	(64,019)
	25,273,214	17,060,517
Operating income (loss)	(1,854,874)	1,336,403
Provision for (recovery of) income taxes (Note 6):		
Current	86,797	295,407
Deferred	(732,887)	369,992
	(646,090)	665,399
Income (loss) before extraordinary items	(1,208,784)	671,004
Extraordinary items (Note 12)	(13,191)	(162,560)
Net income (loss) for year	$ (1,221,975)	$ 508,444
Earnings (loss) per share (Note 13):		
Income (loss) before extraordinary items	$ (2.36)	$1.29
Net income (loss)	$ (2.38)	$ .91

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND DEFICIT

	For the year ended December 31	
	1972	1971
Balance, beginning of year	$ 1,174,247	$ 1,006,068
Add (Deduct) — Net income (loss) for year	(1,221,975)	508,444
	(47,728)	1,514,512
Less — Dividends (Note 9):		
Class A Preferred	4,127	241,040
Class B Preferred	21,600	54,000
Class C Preferred	19,980	45,225
	45,707	340,265
Balance, end of year	$ (93,435)	$ 1,174,247

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31 1972	1971
CURRENT		
Cash	$ 123,986	$ 230,961
Bank term deposits	—	1,093,000
Accounts receivable	5,422,672	4,180,338
Inventory of materials and supplies, at lower of cost or replacement cost	783,461	502,259
Contracts and work in progress in excess of billings (Note 2)	815,972	183,522
Income taxes recoverable	112,702	—
Prepaid expenses	242,832	150,434
	7,501,625	6,340,514
INVESTMENTS IN OTHER COMPANIES, at cost less amounts written off	392,560	421,735
PROPERTY AND EQUIPMENT, at cost (Note 3)	16,960,207	12,079,366
Less—Accumulated depreciation	7,735,018	6,117,999
	9,225,189	5,961,367
DEFERRED CHARGES	19,266	22,434
GOODWILL (Note 4)	1,681,892	189,924
OTHER	19,609	19,116
	$18,840,141	$12,955,090

Approved on behalf of the Board:

J. W. STRATH, Director

G. D. ROSS, Director

CONSOLIDATED BALANCE SHEET

LIABILITIES

	December 31 1972	1971
CURRENT		
Bank advances, secured by accounts receivable	$ 1,444,120	$ 209,558
Accounts payable and accrued	4,509,219	3,457,817
Notes payable, secured by equipment	110,645	28,000
Income taxes payable	—	295,941
Contract advances	264,575	438,157
Term debt due within one year	1,207,893	477,193
	7,536,452	4,906,666
Current portion of deferred income taxes	93,401	32,391
	7,629,853	4,939,057
TERM DEBT (Note 5)	5,862,445	2,215,165
DEFERRED INCOME TAXES (Note 6)	575,896	1,104,906
PROVISIONS FOR ACCRUED COSTS (Note 7)	629,675	98,103
	14,697,869	8,357,231
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8):		
5,502 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized—142,000 shares)	68,775	603,088
12,000 6% cumulative redeemable convertible Class B preferred shares of a par value of $30.00 each (Authorized—12,000 shares)	360,000	360,000
28,166 6% cumulative redeemable convertible Class C preferred shares of a par value of $33.50 each (Authorized—150,000 shares, issuable in series)	943,561	301,500
551,584 common shares of a par value of 50c each (Authorized—1,000,000 shares)	275,792	243,883
PAID IN SURPLUS (Note 8)	2,587,579	1,915,141
RETAINED EARNINGS (DEFICIT)	(93,435)	1,174,247
	4,142,272	4,597,859
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
	$18,840,141	$12,955,090

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

		For the year ended December 31 1972	1971
Source of funds			
Revenue		$23,418,340	$18,396,920
Less — Net operating costs (excluding net provisions for accrued costs), sales, administration and general expenses, interest and current taxes		22,668,071	16,038,200
Funds from operations		750,269	2,358,720
Term borrowing		2,281,335	764,150
Proceeds from property and equipment disposals		802,520	2,258,323
Issue of common shares upon acquisition of subsidiaries		100,006	—
Issue of preferred shares upon acquisition of subsidiaries		642,061	—
Sale of common shares for cash		70,028	3,128
		4,646,219	5,384,321
Application of funds			
Additions to property and equipment		3,467,043	2,280,735
Decrease in term debt		966,082	1,452,123
Dividends paid and payable		45,707	340,265
Other		44,192	38,468
		4,523,024	4,111,591
Purchase of shares of subsidiary companies		1,995,276	—
Less — Working capital acquired		403,406	—
Balance		1,591,870	—
Consisting of: Fixed assets	$2,988,180		
Goodwill	1,491,968		
Term debt	(2,332,027)		
Provisions for accrued costs	(291,364)		
Deferred income taxes	(264,887)		
	$1,591,870		
		6,114,894	4,111,591
Increase (decrease) in working capital, excluding current portion of deferred income taxes		(1,468,675)	1,272,730
Working capital, beginning of year		1,433,848	161,118
Working capital (deficiency of working capital), end of year		$ (34,827)	$ 1,433,848

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1972

NOTE 1. PRINCIPLES OF CONSOLIDATION:

The consolidated statements include the accounts of Kenting Limited and its subsidiaries all of which are wholly-owned (the "Company").

Effective March 31, 1972 Kenting Limited acquired all of the outstanding shares of Atlas Aviation Limited and Technical Enterprise (Electrical) Ltd. All of the outstanding shares of Spartan Aero Limited were acquired effective December 31, 1972. Aggregate consideration given in exchange for the outstanding shares of these companies was as follows: cash payments of $950,000, issuance of term debt in the amount of $200,090, issuance of 7,460 Class C preferred shares, second series, 11,706 Class C preferred shares, third series and 12,904 common shares. These transactions have been accounted for as purchases and accordingly the results of operations of Atlas Aviation Limited and Technical Enterprise (Electrical) Ltd. for the period from March 31, 1972 to December 31, 1972 have been included in the consolidated statement of income.

The Company's investment in an unincorporated joint venture (DrillArctic) is carried on an equity basis. The consolidated statement of income includes the Company's share of revenues and expenses of the joint venture, but no profit has been recognized as the project was in its initial stages at December 31, 1972.

For comparative purposes certain 1971 accounts have been reclassified.

NOTE 2. CONTRACTS AND WORK IN PROGRESS:

The Company generally follows the practice of recording income from contracts under the percentage-of-completion method of accounting. Projected losses are provided for in their entirety.

The Company has retained proprietary and sales commission rights to technical data relating to completed geophysical and geological appraisal projects in the Canadian North (Quest Data Library) subject to payment of varying portions of sales proceeds to companies which provided services for the projects. In accordance with the Company's accounting policy the costs of such completed projects have been written off.

NOTE 3. PROPERTY AND EQUIPMENT:

	Depreciation rates, mainly	1972	1971
Aircraft and helicopter divisions	12½% to 15%	$ 6,239,207	$ 4,493,873
Drilling divisions	18% to 33%	6,735,060	5,172,484
Seismic, geophysical and mapping divisions	18% to 45%	2,839,839	1,605,468
Oilfield construction division	24% to 33%	1,077,087	757,541
Petroleum and natural gas interests		69,014	50,000
		16,960,207	12,079,366
Less — Accumulated depreciation and depletion		7,735,018	6,117,999
		$ 9,225,189	$ 5,961,367

The above depreciation rates are applied on a reducing balance basis and will amortize costs, less estimated salvage values, over the estimated economic service lives of the respective assets.

The Company considers certain leases of capital property, because of the terms of such leases, to be purchases. The discounted values of future rental and purchase option payments under these leases are included in property and equipment and the related commitments are included in term debt.

NOTE 4. GOODWILL:

In the opinion of management there is no indication of a reduction in value of "Goodwill" (the cost of investment in subsidiaries in excess of fair values assigned to identifiable net assets) and accordingly it is not being amortized.

NOTE 5. TERM DEBT:

		1972	1971
Bank loans, being repaid in monthly instalments of $63,334 together with interest at current bank rates, secured principally by floating charge debentures		$ 3,410,832	$ 1,417,320
7½% Convertible sinking fund debentures	(i)	950,000	950,000
6% Debentures, secured	(ii)	1,923,224	—
Conditional sales agreements at interest rates varying from 9% to 12%, with $190,509 repayable in 1973 and the balance due 1974		217,232	—
6% Note repayable in January 1977		200,090	—
Capitalized lease purchase agreements, secured, terminating in 1973 and 1974		178,142	—
6% Debenture, secured	(iii)	98,000	—
8% Notes repayable July 1974		67,818	67,818
7% Note repayable July 1973		25,000	115,000
Other		—	142,220
	(iv)	7,070,338	2,692,358
Less — Payments due within one year included in current liabilities		1,207,893	477,193
		$ 5,862,445	$ 2,215,165

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of $100,000 annually from 1973 to 1979 inclusive. Each $1,000 principal amount convertible into 34 common shares to May 15, 1973 and into 28 common shares to May 15, 1978 subject to anti-dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge. Covenants contained in the debenture preclude certain transactions (including the issuance of term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) 6% Debenture, repayable in nine annual instalments (including interest) of $250,000 beginning January 10, 1974 with payment of remaining balance due January 10, 1983, secured by fixed and floating charges upon the assets of a subsidiary company, Spartan Aero Limited. Accelerated payment terms are provided in the event that the annual net cash flow of that company, as defined in the debenture, exceeds a certain amount.

(iii) The Company has undertaken to convert the outstanding principal balance of the 6% Debenture to common shares on January 18, 1975, the conversion price to be based upon prevailing common share quotations at that time.

(iv) Annual payments due on term debt:

1973	$1,207,893
1974	1,128,247
1975	1,100,691
1976	1,011,252
1977	837,884
Thereafter	1,784,371
	$7,070,338

NOTE 6. DEFERRED INCOME TAXES:

Full provision has been made for deferred income taxes without regard to potential income tax recoveries of approximately $240,000 which may result from the carry-forward of losses (calculated on an accounting basis) of certain subsidiary companies. Future tax benefits arising from the loss incurred by another subsidiary in carrying out its contracted 1972 marine seismic program have been recorded. The loss was attributable to unusual Arctic ice conditions and it appears virtually certain that future income tax recoveries will be realized.

NOTE 7. PROVISIONS FOR ACCRUED COSTS:

Provisions are made (by charges to income based upon levels of operating activity) for estimated future liabilities relating to major overhauls of aircraft and helicopters and to costs which are occasionally incurred because of unpredictable major delays in carrying out drilling contracts. Amounts recorded by subsidiary companies acquired in 1972 prior to their effective dates of acquisition are also included in the provisions. Actual costs, when incurred, are charged against the appropriate provision to the extent of that provision.

NOTE 8. CAPITAL STOCK AND PAID IN SURPLUS:

The following table outlines the changes in common shares, Class A preferred shares and paid in surplus during the year ended December 31, 1972:

	Common Shares		Paid In	Class A Preferred Shares	
	Shares	Par Value	Surplus	Shares	Par Value
Balance, December 31, 1971	487,767	$243,883	$1,915,141	48,247	$603,088
Issued:					
In exchange for Class A preferred shares (one common share for each preferred share exchanged)	42,745	21,373	512,940	(42,745)	(534,313)
Under warrants (at $8.50 cash per share)	6,968	3,484	55,744	—	—
Under employee options (at $9.00 cash per share)	1,200	600	10,200	—	—
In exchange for shares and debt of Spartan Aero Limited	12,904	6,452	93,554	—	—
	551,584	$275,792	$2,587,579	5,502	$ 68,775

Class C preferred shares issued in exchange for share capital of subsidiary companies acquired in 1972 were as follows: 7,460 Class C preferred shares, second series (par value — $249,910) on acquisition of Atlas Aviation Limited; 11,706 Class C preferred shares, third series (par value — $392,151) on acquisition of Spartan Aero Limited. 9,000 Class C preferred shares, first series (par value — $301,500) were outstanding at December 31, 1972.

The following warrants and options were outstanding at December 31, 1972:

Warrants:

11,709 entitling holders thereof to purchase one common share for each warrant held at $8.50 per share to June 30, 1973.

800 entitling holders thereof to purchase one common share for each warrant held at $20.00 per share to November 30, 1973.

Employee options:

7,300 common shares at a price of $9.00 per share exercisable at the rate of 4,220 shares in 1973 and 1,540 shares in 1974 and 1975 on a cumulative basis.

Preferred shares are convertible into common shares as follows:

Class A to December 31, 1974, Class B to January 15, 1973 and Class C first series to January 15, 1974, share for share. Class C second series to May 1, 1977 on the basis of 2.65 common shares for each share. Class C third series, from January 1, 1983 to December 31, 1987, on the basis of

average December, 1982 common share quotations. Class A, B and C (first and second series) preferred shares are redeemable at annually reducing premiums which do not exceed 6% in 1973. Class C preferred shares, third series, are redeemable at par.

The Company has reserved 155,200 common shares for the possible conversion of debentures and preferred shares and the exercise of outstanding warrants and options.

NOTE 9. DIVIDENDS:

All cumulative preferred share dividends have been declared to December 31, 1972 but $14,753 of these dividends have not been paid. Under the terms of the 7½% convertible sinking fund debentures cash dividends may not be paid unless working capital exceeds $1,000,000 after such payment.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES:

To December 31, 1972 the Company had received technological development grants totalling approximately $165,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

The Company is obligated under certain equipment and premises lease agreements to pay approximate annual rentals as follows:

1973	$350,000
1974	297,000
1975	271,000
1976	270,000
1977 through 1979	149,000
1980 through 1981	91,000
1982 through 1988	66,000

The leases can be renewed on various terms and some equipment leases provide for options to purchase.

A claim in the approximate amount of $150,000 has been filed against the Company in connection with an incident involving a Company employee. In the opinion of management, after consultation with counsel, no loss to the Company will result from this claim.

A subsidiary company is contingently liable for a damage claim which might arise from the failure of a sub-contractor to complete certain work. The subsidiary company is adequately indemnified against loss by a major third party (the parent company of the sub-contractor) in the event that such a claim arises.

The Company has guaranteed the repayment of its share of joint venture bank loans, to a maximum amount of $1,066,700. The Company's share of such bank loans at December 31, 1972 amounted to approximately $580,000.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 11. REVENUE:

The revenue resulting from the operation of each of the Company's main classes of business, expressed as a percentage of total revenue, was as follows:

	1972	**1971**
Drilling	34%	29%
Aircraft and helicopters	29%	26%
Oilfield construction	20%	19%
Seismic, geophysics and data sales	17%	26%
	100%	100%

NOTE 12. EXTRAORDINARY ITEMS:

	1972	1971
Income tax reduction arising from utilization of losses carried forward	$ —	$ 410,320
Loss on sale of Offshore Division	—	(459,996)
Write-down of investments in other companies	—	(117,163)
Gain (loss) on disposal of investments	(13,191)	4,279
	$ (13,191)	$ (162,560)

NOTE 13. EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share figures are calculated using the weighted average number of shares outstanding (535,582 — 1972; 427,206 — 1971) after deducting preferred share dividend requirements ($53,204 — 1972; $121,048 — 1971). The assumed conversion of senior shares and debt and exercise of outstanding warrants and options would not have a dilutive effect upon (would not increase) loss per share figures presented.

NOTE 14. REMUNERATION OF DIRECTORS AND OFFICERS:

	1972		1971	
	Number	Total	Number	Total
Directors	14	$ 19,575	12	$ 15,908
Officers	8	180,844	8	169,227
		$200,419		$185,135

Officers who were also directors: 1972 — 5, 1971 — 5.

AUDITORS' REPORT

To the Shareholders of

KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and deficit and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 16, 1973

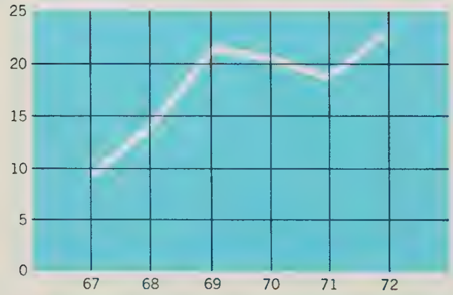
PRICE WATERHOUSE & CO.
Chartered Accountants

SIX YEAR FINANCIAL SUMMARY

	1972	1971	1970	1969	1968	1967(1)
OPERATING RESULTS (in thousands)						
Revenue	$23,418	18,397	20,821	21,419	13,856	9,855
Net operating costs, sales, administration and general expenses	22,559	15,545	18,728	19,182	12,095	7,911
Interest on term debt	312	243	463	501	277	145
	22,871	15,788	19,191	19,683	12,372	8,056
Cash flow from operations	547	2,609	1,630	1,736	1,484	1,799
Depreciation, depletion and amortization	2,337	1,337	2,116	1,047	738	613
Loss (gain) on disposal of property and equipment	65	(64)	16	(11)	(52)	(56)
	2,402	1,273	2,132	1,036	686	557
Operating income (loss)	(1,855)	1,336	(502)	700	798	1,242
Income taxes provided (recovered):						
Current	87	295	(40)	29	110	76
Deferred	(733)	370	(121)	450	307	422
	(646)	665	(161)	479	417	498
Portion of net income of pooled companies applicable to purchase	—	—	—	—	—	70
Income (loss) before extraordinary items	(1,209)	671	(341)	221	381	674
Extraordinary items	(13)	(163)	(355)	422	109	68
Net income (loss)	$(1,222)	508	(696)	643	490	742

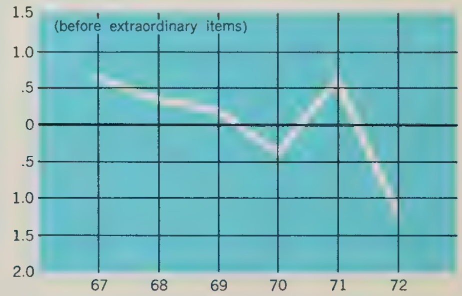
(1) 1967 is restated to give effect to a 1968 business combination accounted for as a pooling of interests. Income in that year has been reduced by the amount of net income applicable to the purchase portion of a subsidiary company combined on a partial pooling of interests basis.

REVENUE *MILLIONS OF DOLLARS*



CASH FLOW FROM OPERATIONS *MILLIONS OF DOLLARS*

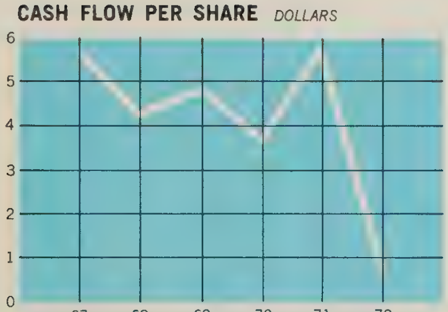
INCOME *MILLIONS OF DOLLARS*



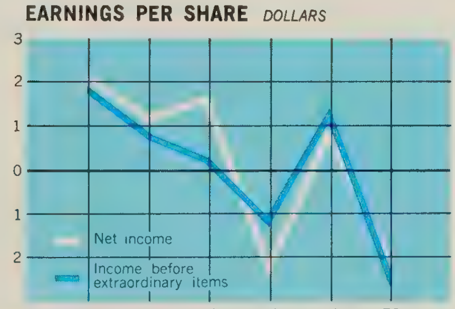
SIX YEAR FINANCIAL SUMMARY

	1972	1971	1970	1969	1968	1967(1)
YEAR END FINANCIAL POSITION (in thousands)						
Working capital	$ (35)	1,434	161	(185)	1,169	331
Fixed assets, cost	$ 16,960	12,079	14,404	14,961	10,907	8,561
Accumulated depreciation	$ (7,735)	(6,118)	(5,918)	(4,993)	(4,246)	(3,274)
Net	$ 9,225	5,961	8,486	9,968	6,661	5,287
Term debt	$ 5,862	2,215	2,903	4,049	3,710	2,621
Common shareholders' equity	$ 2,770	3,333	1,945	1,782	1,435	1,115
EARNINGS PER SHARE						
Earnings per common share (after provision for preferred share dividends):						
Cash flow from operations	$ .92	5.82	3.83	4.92	4.32	5.76
Income (loss) before extraordinary items	$ (2.36)	1.29	(1.23)	.23	.76	1.84
Net income (loss)	$ (2.38)	.91	(2.14)	1.54	1.11	2.08
Weighted average number of shares outstanding	535,582	427,206	389,921	323,044	309,585	286,823
Provision for preferred share dividends	$ 53,204	121,048	136,106	146,190	146,190	146,190
Fully diluted earnings (loss) per common share:						
Income (loss) before extraordinary items	$ (2.36)	1.12	(1.23)	.45	.71	1.36
Net income (loss)	$ (2.38)	.85	(2.14)	1.20	.92	1.49
Dividends per share paid:						
Common	$ —	—	—	—	.30	.30
Class A preferred	$ .375	1.875	—	.375	.75	.022
Class B preferred	$ .90	4.50	—	.90	1.36	—
Class C preferred — first series	$ 2.01	5.025	—	—	.38	—

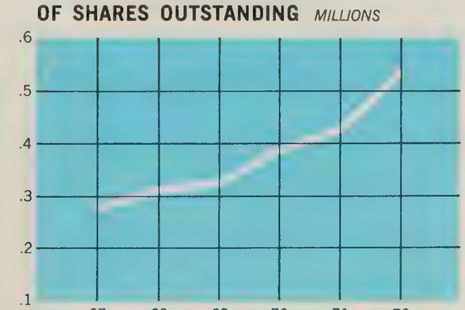
CASH FLOW PER SHARE *DOLLARS*



EARNINGS PER SHARE *DOLLARS*



WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING *MILLIONS*



HEAD OFFICE

KENTING LIMITED
3rd floor, 700-Sixth Avenue S.W.,
Calgary, Alberta, Canada
Telephone 263-2980 (A.C. 403)

DIVISIONAL OFFICES

KENTING AVIATION DIVISION
P.O. Box 6024,
Toronto A.M.F., Ontario
Telephone 677-6721 (A.C. 416)
and Resolute Bay, N.W.T.

Air cargo and logistics; aerial reconnaissance and control; forest fire suppression, airborne ecological and resource surveys; aerial photo; aircraft charter and management.

KENTING BIG INDIAN DRILLING DIVISION
415 Monument Place S.E.,
Calgary, Alberta
Telephone 272-8811 (A.C. 403)

SURE-CORE sampling; percussion, over-burden and core drilling; foundation and seabed sampling; heli-portable, air-water and auger seismic drilling; dewatering, groundwater drilling and anchor and tieback drilling.

KENTING OILFIELD SERVICES
P.O. Box 4506,
Edmonton, Alberta
Telephone 465-5276 (A.C. 403)

KLEENUP pollution-free incineration; pipeline, pump station, compressor station construction; field maintenance and well operations.

KENTING PETROLIA DRILLING DIVISION
700-Sixth Avenue S.W.,
Calgary, Alberta
Telephone 263-2980 (A.C. 403)

Arctic, shallow, medium and deep oil and gas well drilling.

KENTING KLONDIKE HELICOPTERS DIVISION
Hangar No. 3, Calgary International Airport,
Calgary, Alberta
Telephone 277-8526 (A.C. 403)

Offshore rig and logistics support; airborne surveys and inspection; fire bombing; wildlife survey and management; powerline construction and charter.

KENTING EARTH SCIENCES DIVISION
380 Hunt Club Road,
Ottawa, Ontario
Telephone 521-1630 (A.C. 613)

Airborne geophysical; ecological, resource and engineering surveys, photography and mapping; integrated evaluation; rail-line relocation.

KENTING EXPLORATION SERVICES DIVISION
(including KenQuest Exploration, Kenting Petroleum Geophysics and Kenting Geo-Sciences)
524-Eleventh Avenue S.W.,
Calgary, Alberta
Telephone 263-1701 (A.C. 403)

Land and marine seismic, including Arctic track and ice-congested waters; gravity, magnetics, geological and geochemical surveys; airborne geophysics, permafrost studies; geophysical program design, supervision and interpretation, and exploration data sales.

OPERATIONS OFFICES

Toronto, Calgary, Edmonton, Ottawa,
Resolute Bay, N.W.T.; Whitehorse, Y.T.;
Fort Smith, N.W.T.; Hay River, N.W.T.;
Inuvik, N.W.T.; Lagos, Nigeria.

DIRECTORS

J. C. ANDERSON President Allied Equipment Ltd.	Calgary
S. W. ARMSTRONG President Canam Holdings Ltd.	Calgary
A. C. JOHNSON Retired Executive Canadian Imperial Bank of Commerce	Calgary
D. N. KENDALL Chairman of the Board Kenting Limited	Toronto
D. D. C. McGEACHY Corporate Director	London, Ont.
D. A. McINTOSH Partner Fraser & Beatty	Toronto
A. E. PALLISTER Vice President, Science and Development Kenting Limited	Calgary
G. D. ROSS Vice-President, Finance Kenting Limited	Calgary
P. R. SANDWELL President Sandwell and Company Limited	Vancouver
J. W. STRATH President and General Manager Kenting Limited	Calgary
A. VANDEN BRINK Vice-President, Drilling Kenting Limited	Calgary
R. A. WISENER Partner Wisener and Partners Company Limited	Toronto

OFFICERS

D. N. KENDALL,
Chairman of the Board of Directors

J. W. STRATH,
President and General Manager

G. D. ROSS,
Vice President, Finance

A. VANDEN BRINK,
Vice President, Drilling

A. E. PALLISTER,
Vice President, Science and Development

K. C. GROGAN,
Secretary-Treasurer

J. F. MOORE,
Assistant Secretary

G. W. OWEN,
Assistant Secretary

TRANSFER AGENTS

Royal Trust Co.

AUDITORS

Price Waterhouse & Co.

SOLICITORS

Fraser & Beatty – Toronto
Howard, Moore, Dixon, Mackie & Forsyth – Calgary

STOCK EXCHANGE LISTING

Kenting is a Canadian Company, owned by Canadians. Its shares are listed on The Toronto Stock Exchange.

LITHO'D IN CANADA

File

INTERIM REPORT TO THE SHAREHOLDERS

FOR THE SIX-MONTH PERIOD ENDING JUNE 30, 1972

KENTING LIMITED

KENTING LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For The Six Months Ended June 30		For The Twelve Months Ended June 30	
	1972	1971	1972	1971
Revenue	$10,431,000	$ 8,820,000	$20,008,000	$19,159,000
Net operating costs	7,887,000	6,177,000	14,665,000	14,059,000
Sales, administration and general expenses	1,454,000	1,274,000	2,769,000	2,501,000
Interest on term debt	120,000	152,000	211,000	362,000
Provision for depreciation and amortization	855,000	552,000	1,640,000	1,776,000
Gain on disposal of property and equipment	(6,000)	(65,000)	(5,000)	(39,000)
	10,310,000	8,090,000	19,280,000	18,659,000
Operating profit	121,000	730,000	728,000	500,000
Provision for (recovery of) income taxes:				
Current	120,000	140,000	275,000	87,000
Deferred	(60,000)	224,000	86,000	53,000
Profit before extraordinary income (expense)	61,000	366,000	367,000	360,000
Income tax reduction arising from carry-forward of losses of a certain subsidiary	—	355,000	55,000	355,000
Write-down of investments in other companies	—	(60,000	(57,000)	(192,000)
Gain (loss) on disposal of investments	—	4,000	—	(73,000)
Loss on sale of Offshore Division, net of deferred income taxes recovered	—	(112,000)	(348,000)	(292,000)
Net income (loss) for the period	$ 61,000	$ 553,000	$ 17,000	$ 158,000
Earnings (loss) attributable to each common share after providing for prescribed dividends on preferred shares:				
Cash flow from operations (before income taxes)	$ 1.77	2.82	4.58	5.16
Before extraordinary items	$ .07	.73	.59	.55
On net income	$ .07	1.19	(.11)	.05
Weighted average number of shares outstanding	535,040	407,091	500,101	407,091
Fully diluted earnings (loss) per share:				
Before extraordinary items	$ .06	.61	.57	.52
On net income	$ .06	.91	(.10)	.05

The above statement is unaudited.

TO THE SHAREHOLDERS:

The net income before extraordinary items for the six months ended June 30, 1972 was $61,000 as compared to $366,000 for the same period in 1971. The decrease is mainly attributable to a reduction of $194,000 in net income realized from Quest data sales and to an exceedingly wet and extended spring which delayed the commencement of field activity after the spring breakup. Based upon the amount of work being done and contracted for the third quarter, it would appear that the business lost in the second quarter will be picked up before the year end.

Kenting's net income before extraordinary items for the twelve month period ended June 30, 1972 was $367,000 as compared to $360,000 for the twelve month period ended June 30, 1971.

Cash flow from operations before taxes was $970,000 in the first six months of 1972 as compared to $1,217,000 for the comparable period in 1971. For the twelve month period, the comparison was $2,363,000 in 1972 and $2,237,000 in 1971.

SUBSEQUENT EVENTS

Late in June, the Company announced that negotiations were being conducted with Spartan Air Services Limited and Canadian Aero Service Limited for the acquisition of their wholly-owned subsidiary, Spartan Aero Limited. Negotiations are still proceeding favourably and it is hoped that the final agreement will be concluded in the very near future.

Spartan Aero Limited was formed in 1970 by each of the shareholder companies transferring into the new company their aerial survey business. It is this business which we are negotiating to acquire from Spartan Air Services Limited and Canadian Aero Service Limited.

Spartan Aero Limited would fit well within the framework of Kenting and would bridge a significant gap that exists in our services. Spartan Aero Limited is engaged in many of the same businesses as Kenting — flying aircraft, selling exploratory data, and operating ground geophysics. Its additional business, aerial survey work, would extend Kenting's present services on a national and an international basis.

OPERATIONAL REVIEW

The Company's oilwell drilling divisions experienced a successful first half. The operating level of the industry has improved over last year and this is expected to continue for the balance of the year.

The oilfield construction division suffered greatly from the extended spring breakup and really did not get going again until June. The division's present backlog of contracts will result in maximum activity throughout the third quarter.

The aviation divisions are operating at improved levels over last year, although the wet summer to date has cut into the activity associated with fire suppression. The most profitable period for both the fixed wing and helicopter divisions is in the third quarter and the present activity levels are good.

Due to a drop in the net income from Quest data sales, the geophysics divisions' profits are down substantially from last year on an overall basis. However, the field operating divisions are performing ahead of last year and two ice-strengthened seismic vessels are on the way to the Arctic Islands to conduct extensive marine surveys in the Arctic waters, Beaufort Sea and Prudhoe Bay.

The third quarter is traditionally the most profitable quarter for Kenting. In 1971, 55% of the yearly earnings were generated in the third quarter and 75% of 1972 budgeted earnings are projected to occur in the upcoming quarter. At this time, the results for the third quarter appear to be most satisfactory and it is expected that the projected results will materialize. There is concern, however, over the operations of the seismic vessels presently proceeding into the high Arctic. The ice conditions in Arctic waters are reported to be more severe this year than have been experienced in many years and this could affect the extent of programs to be completed.

August 24, 1972

J. W. Strath
President

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For The Six Months Ended June 30		For The Twelve Months Ended June 30	
	1972	1971	1972	1971
SOURCE OF FUNDS				
Funds from operations before taxes	$ 970,000	$1,217,000	$2,363,000	$2,237,000
Less - provision for current income taxes	120,000	140,000	275,000	87,000
Funds from operations	850,000	1,077,000	2,088,000	2,150,000
Term borrowing	2,149,000	–	2,913,000	–
Proceeds from property and equipment disposals	183,000	259,000	2,182,000	373,000
Net provision for accrued costs	102,000	31,000	116,000	20,000
Sale of common shares for cash	63,000	–	66,000	6,000
Issuance of Class C preferred shares on acquisition	250,000	–	250,000	–
Other	–	8,000	–	–
	$3,597,000	$1,375,000	$7,615,000	$2,549,000
APPLICATION OF FUNDS				
Additions to property and equipment	$2,774,000	$ 235,000	$4,820,000	$ 706,000
Decrease in term debt	450,000	727,000	1,175,000	1,316,000
Dividends paid	22,000	–	362,000	–
Additions to goodwill	609,000	–	609,000	–
Investment in other companies	–	–	–	275,000
Disposal and write-down of temporary investments	–	–	–	118,000
Other	–	–	47,000	31,000
	3,855,000	962,000	7,013,000	2,446,000
Increase (decrease) in working capital	(258,000)	413,000	602,000	103,000
	$3,597,000	$1,375,000	$7,615,000	$2,549,000

The above statement is unaudited.